



# RAFFLES MEDICAL | BUY

MARKET CAP: USD 1.8B

AVG DAILY TURNOVER: USD 2.0M

21 Feb 2017  
Company Update

## GROWTH IN PROGRESS

- **Slower 4Q16**
- **Raffles Hospital Extension to open by 4Q17**
- **Keeping our view**

### FY16 results within our expectations

Raffles Medical Group's (RMG) FY16 results came in within our expectations, as revenue grew 15.4% YoY to S\$473.6m, forming 98% of our FY16 estimate while PATMI was up 1.3% to S\$70.2m, meeting 96% of full year estimate. Revenue was driven by a 30.8% improvement in Healthcare services and a 6.3% increase for Hospital services. Excluding International SOS (MC Holdings) and its subsidiaries (MCH), group revenue increased 7.5%, and operating profit would have grown 4.4% vs. 1.7%.

### Small increase in foreign patients' volume expected

We note that topline growth was slower in the fourth quarter, which management attributed to the holiday season and small declines in patient volume from Indonesia. To the latter point, in consideration of the macro environment and stronger SGD against currencies like IDR, MYR, coupled with strong regional competition, overall foreign patient volume growth is expected to be small.

### Both segments still set to grow

Both the hospital and healthcare segments of the group are still set for growth ahead. The hospital segment should continue to see organic growth, on the back of better patient volume and case intensity. The Raffles Hospital Extension is also slated to complete by 4Q17, with about half the space for own expansion plans while the other half will be leased out. The healthcare segment would continue to be driven by existing and new medical centres, while progress is being made in improving efficiency at MCH.

### Maintain BUY

Given the expansion plans, the group recorded higher costs from several fronts including higher staff costs due to the acquisition of MCH as well as staff recruitment for expanded business operations and the new medical centre in Raffles Holland V. There were also transition costs incurred for MCH during the year. Nonetheless, we believe management continues to stay focused on cost management. All considered, we adjusted our PATMI estimate slightly, giving a S\$1.60 FV estimate on the stock (previous: S\$1.61). Maintain **BUY** on the group's steady long term growth story. A final DPS of 1.5 S-cents was declared, bringing total FY16 dividends to 2.0 S-cents.

#### Key financial highlights

Year Ended Dec 31 (S\$m)	FY15	FY16	FY17F	FY18F
Revenue	410.5	473.6	516.3	560.6
EBITDA	93.4	96.4	114.3	123.9
Operating profit	80.6	81.9	98.7	105.6
Core PATMI	67.8	70.2	82.7	86.6
EPS* (SG cents)	4.0	4.0	4.8	5.0
Cons. EPS (SG cents)	na	na	4.4	5.0
Net profit margin (%)	16.9	14.8	16.0	15.5
PER (x)	36.8	36.1	30.7	29.3
ROE (%)	12.1	11.1	12.0	11.7
EV/EBITDA (x)	27.1	25.9	22.4	20.5

\*FY15 ratios are adjusted based on latest number of issued shares

## BUY (maintain)

Fair value	S\$1.60
add: 12m dividend forecast	S\$0.02
versus: Current price	S\$1.460
<b>12m total return forecast</b>	<b>11%</b>

#### Analysts

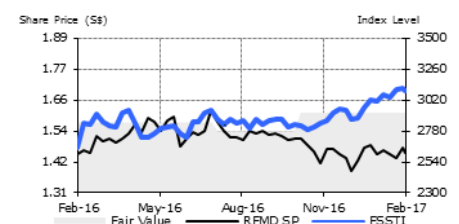
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#### Key information

Market cap. (m)	S\$2,554 / USD1,800
Avg daily turnover (m)	S\$2 / USD2
Avg daily vol. (m)	1.5
52-wk range (S\$)	1.38 - 1.675
Free float (%)	48.1
Shares o/s. (m)	1,749.1
Exchange	SGX
BBRG ticker	RFMD SP
Reuters ticker	RAFG.SI
SGX code	BSL
GICS Sector	Healthcare Healthcare Providers
GICS Industry	Dr Loo Choon Yong - 48.1%
Top shareholder	

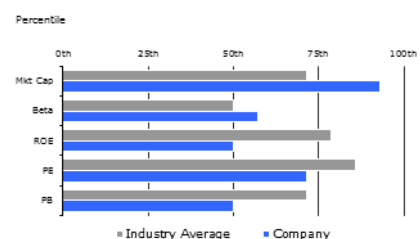
Relative total return	1m	3m	12m
Company (%)	0	3	6
STI-adjusted (%)	-3	-7	-15

#### Price performance chart



Sources: Bloomberg, OIR estimates

#### Industry-relative metrics



Note: Industry universe defined as companies under identical GICS classification listed on the same exchange.  
Sources: Bloomberg, OIR estimates



**Exhibit 1: Quarterly financial highlights**

	4Q15	4Q16	% Chg	3Q16	% Chg
	(\$m)	(\$m)	(YoY)	(\$m)	(QoQ)
<b>Revenue</b>	<b>114.7</b>	<b>118.5</b>	<b>3.3%</b>	<b>119.3</b>	<b>-0.6%</b>
Other operating income	2.3	1.5	-33.7%	0.0	N.M.
Inventories and consumables used	-12.3	-12.0	-2.5%	-12.9	-7.1%
Purchased and contracted services	-9.4	-10.5	12.0%	-10.2	2.8%
Staff costs	-56.9	-58.9	3.5%	-61.4	-4.1%
Depreciation of PPE	-3.5	-3.7	5.8%	-3.7	1.0%
Amortisation	0.0	0.1	N.M.	-0.1	N.M.
Operating lease expenses	-3.5	-3.8	10.1%	-3.5	8.6%
Other operating expenses	-6.2	-6.5	5.9%	-8.9	-26.8%
<b>Profit from operating activities (EBIT)</b>	<b>25.3</b>	<b>24.7</b>	<b>-2.4%</b>	<b>18.6</b>	<b>33.1%</b>
Finance income	0.2	0.2	21.2%	0.3	-23.8%
Finance expenses	-0.03	-0.04	38.7%	-0.04	10.3%
Share of profits in a jointly-controlled entity	0.0	0.0	N.M.	0.0	N.M.
<b>Profit before income tax</b>	<b>25.5</b>	<b>24.9</b>	<b>-2.3%</b>	<b>18.8</b>	<b>32.2%</b>
Income tax expense	-3.1	-4.1	29.8%	-3.1	32.9%
<b>Profit for the year</b>	<b>22.4</b>	<b>20.8</b>	<b>-6.8%</b>	<b>15.8</b>	<b>32.0%</b>
Attributable to:					
<b>Owners of the company</b>	<b>22.7</b>	<b>21.8</b>	<b>-4.3%</b>	<b>16.2</b>	<b>34.0%</b>
Minority interest	-0.45	-0.94	110.1%	-0.5	101.5%
<b>Profit for the year</b>	<b>22.3</b>	<b>20.8</b>	<b>-6.6%</b>	<b>15.8</b>	<b>32.0%</b>

Source: Company financials

OCBC Investment Research  
Singapore Equities

**Company financial highlights**

Income statement

Year Ended Dec 31 (\$m)	FY15	FY16	FY17F	FY18F
Revenue	410.5	473.6	516.3	560.6
EBITDA	93.4	96.4	114.3	123.9
Depreciation and amortisation	-12.8	-14.5	-15.6	-18.3
Operating profit	80.6	81.9	98.7	105.6
Net interests	1.0	1.0	1.2	0.6
Share of results of JVs, net	0.0	0.0	0.0	0.0
Profit before tax	81.6	82.9	99.9	106.2
Income tax expense	-12.6	-15.0	-18.0	-19.1
PATMI	69.3	70.2	82.7	86.6
Core PATMI	67.8	70.2	82.7	86.6

Balance sheet

As at Dec 31 (\$m)	FY15	FY16	FY17F	FY18F
Bank and cash balances	86.1	111.9	71.9	99.0
Other current assets	84.6	111.4	119.8	130.1
PPE & Inv properties	608.1	641.5	755.9	797.6
Total assets	814.9	900.6	983.5	1,062.5
Debt	44.5	43.3	64.7	77.0
Current liabilities excluding debt	143.8	170.6	185.1	199.7
Total liabilities	192.9	218.8	254.6	281.6
Shareholders equity	603.1	666.4	714.2	765.9
Minority interests	18.9	15.5	14.6	15.1
Total equity and liabilities	814.9	900.6	983.5	1,062.5

Cash flow statement

Year Ended Dec 31 (\$m)	FY15	FY16	FY17F	FY18F
Op profit before working cap. chg.	94.1	97.9	114.3	123.9
Working cap, taxes and int	-23.0	-17.9	-16.4	-16.4
Net cash from operations	72.8	78.9	102.2	108.9
Purchase of PPE	-34.7	-14.5	-10.0	-10.0
Other investing flows	-143.5	-29.9	-118.5	-49.1
Investing cash flow	-178.2	-44.4	-128.5	-59.1
Financing cash flow	41.1	-8.5	-13.6	-22.7
Net cash flow	-64.2	26.0	-39.9	27.1
Cash at beginning of year	150.2	86.1	111.9	71.9
Cash at end of year	86.1	111.9	71.9	99.0

Key rates & ratios

	FY15	FY16	FY17F	FY18F
EPS (SG cents)	4.0	4.0	4.8	5.0
NTA per share (SG cents)	32.7	36.4	39.1	42.1
EBIT margin (%)	19.6	17.3	19.1	18.8
Net profit margin (%)	16.9	14.8	16.0	15.5
PER (x)	36.8	36.1	30.7	29.3
Price/NTA (x)	4.5	4.0	3.7	3.5
EV/EBITDA (x)	27.1	25.9	22.4	20.5
Dividend yield (%)	1.4	1.4	1.4	1.4
ROE (%)	12.1	11.1	12.0	11.7
Net gearing (%)	net cash	net cash	net cash	net cash

Sources: Company, OIR forecasts

\*FY15 ratios are adjusted based on latest number of issued shares

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The analyst/analysts who wrote this report holds/hold NIL shares in the above security.

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- For companies with market capitalization of S\$150m and below, OIR's BUY rating indicates a total expected return in excess of 30%; a HOLD rating indicates total expected returns within a +/-30% range; a SELL rating indicates total expected returns less than -30%.

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